

**REPORT OF THE AUDIT OF THE
FORMER EDMONSON COUNTY
SHERIFF**

**For The Period
January 1, 2008 Through July 31, 2008**



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER EDMONSON COUNTY SHERIFF**

**For The Period
January 1, 2008 Through July 31, 2008**

The Auditor of Public Accounts has completed the former Edmonson County Sheriff's audit for the period January 1, 2008 through July 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$156,667 from the prior year, resulting in excess fees of \$132,982 for the period January 1, 2008 through July 31, 2008. Revenues decreased by \$239,917 from the prior year and expenditures decreased by \$83,250.

Report Comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Reconciliations, And Reporting
- The Former Sheriff's Office Lacked Documented Control Procedures Over Serving Papers

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable N. E. Reed, Edmonson County Judge/Executive
The Honorable B. J. Honeycutt, Former Edmonson County Sheriff
The Honorable T. M. Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Edmonson County, Kentucky, for the period January 1, 2008 through July 31, 2008. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the period January 1, 2008 through July 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2009 on our consideration of the former Edmonson County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable N. E Reed, Edmonson County Judge/Executive
The Honorable B. J. Honeycutt, Former Edmonson County Sheriff
The Honorable T. M Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Reconciliations, And Reporting
- The Former Sheriff's Office Lacked Documented Control Procedures Over Serving Papers

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Edmonson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

December 14, 2009

EDMONSON COUNTY
B. J. HONEYCUTT, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2008 Through July 31, 2008

Revenues

Federal Grants:

Community Oriented Policing Services - Equipment Grant	\$ 13,566		
Homeland Security	9,141		\$ 22,707

Federal Fees For Services:

U.S. Corp of Engineers - Lake Patrol Contract	9,625
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State - Kentucky Law Enforcement Foundation Program Fund	6,282
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State Fees For Services:

Finance and Administration Cabinet	13,469		
Sheriff Security Services (HB 452)	4,097		17,566

Circuit Court Clerk:

Fines and Fees Collected	1,600
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Fiscal Court	47,328
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County Clerk - Delinquent Taxes	1,089
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Commission On Taxes Collected	26,267
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Fees Collected For Services:

Auto Inspections	1,750		
Accident and Police Reports	136		
Serving Papers	21,220		
Carrying Concealed Deadly Weapon Permits	1,340		
Prisoner Transport Mental Health	200		
Sheriff's Add-On Fees and Advertising Fees and Costs	35,872		
Miscellaneous	370		60,888

Interest Earned	219
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Total Revenues	193,571
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The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
 B. J. HONEYCUTT, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 1, 2008 Through July 31, 2008
 (Continued)

Expenditures

Operating Expenditures:

Other Charges-

Community Oriented Policing Services - Equipment Grant	\$ 13,566
Deposit Slips and Checks	96
Carrying Concealed Deadly Weapon Permits	23
Serving Papers To Other Counties	<u>200</u>

Total Expenditures	<u>\$ 13,885</u>
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Net Revenues	179,686
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Less: Statutory Maximum	<u>43,179</u>
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Excess Fees	136,507
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Less: Training Incentive Benefit	<u>3,525</u>
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Excess Fees Due County For The Period January 1, 2008 Through July 31, 2008	132,982
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Payments to Fiscal Court - Monthly	<u>130,830</u>
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Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 2,152</u></u>
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EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

July 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at July 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for January 1, 2008 through July 31, 2008 services
- Reimbursements for January 1, 2008 through July 31, 2008 activities
- Tax commissions due from July tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided for January 1, 2008 through July 31, 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
July 31, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Edmonson County Sheriff participates in a fee pooling system with the Fiscal Court. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts due to the taxing districts. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer pays almost all operating expenses for the fee official.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for July 2008.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Edmonson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
July 31, 2008
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Edmonson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Account

The former Sheriff's office maintained a Drug Fund for related receipts and expenditures. The balance of the fund as of January 1, 2008 was \$3,832. During the period January 1, 2008 through July 31, 2008, receipts were \$6,898 including \$31 in interest and disbursements were \$4,552, resulting in an ending balance of \$6,178 on July 31, 2008. These funds were transferred to the current Sheriff upon vacation of office.

Note 5. Federal Grant

The Sheriff's office received a Community Oriented Policing Services (COPS) – Law Enforcement Technology Grant from the U.S. Department of Justice in the amount of \$197,446. The balance of the fund as of January 1, 2008 was \$12,581. During the period January 1, 2008 through July 31, 2008, grant receipts were \$1,249 including \$49 in interest and disbursements were \$13,566, resulting in an ending balance of \$264 on July 31, 2008. These funds were transferred to the current Sheriff upon vacation of office.

Note 6. Subsequent Events

The Sheriff B. J. Honeycutt retired on July 31, 2008. T. M. Vincent was appointed interim Sheriff by the Edmonson County Fiscal Court until a special election could be held in November 2008. T.M. Vincent won the special election.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable N. E. Reed, Edmonson County Judge/Executive
The Honorable B. J. Honeycutt, Former Edmonson County Sheriff
The Honorable T. M. Vincent, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Edmonson County Sheriff for the period January 1, 2008 through July 31, 2008, and have issued our report thereon dated December 14, 2009. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Edmonson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Reconciliations, And Reporting
- The Former Sheriff's Office Lacked Documented Control Procedures Over Serving Papers

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Edmonson County Sheriff's financial statement for the period January 1, 2008 through July 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The former Edmonson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the former Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Edmonson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 14, 2009

COMMENTS AND RECOMMENDATIONS

EDMONSON COUNTY
B. J. HONEYCUTT, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2008 Through July 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES

The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Cash, Receipts, Reconciliations, And Reporting

Our review and evaluation of the former Sheriff's internal controls disclosed a lack of segregation of duties. All employees of the Sheriff's office collected receipts. The former Sheriff's bookkeeper prepared daily checkout sheets, prepared some bank deposits, and posted some collection totals to the receipts ledger. The bookkeeper prepared monthly and quarterly financial reports and performed monthly bank reconciliations. A proper segregation of duties would have separate employees collecting money, recording transactions in the receipts ledger, and reconciling the financial records. There were no documented compensating controls noted to offset this internal control deficiency. The former Sheriff could have implemented compensating controls similar to those noted below to offset the lack of adequate segregation of duties.

- The former Sheriff should have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. He could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger for the day checked.
- The former Sheriff should have compared the monthly, quarterly, and annual financial reports to receipts ledger for accuracy. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the receipts ledger or denoting the comparison on the financial reports.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former Sheriff could have documented this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff's Response: Agree.

The Former Sheriff's Office Lacked Documented Control Procedures Over Serving Papers

Implementing control procedures over the collection of fees for serving papers is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Control procedures over the collection of fees for serving papers were not documented by the former Sheriff's office. When papers were received from the Circuit Clerk's office, the former Sheriff's office entered the papers into a tracking worksheet in excel, wrote a receipt ticket for the fees collected, and deposited the fees collected into the fee account. However, after the papers were served, the papers were deleted from the tracking worksheet in excel. Therefore, we were unable to trace papers received from the Circuit Clerk's office to the fees collected for serving papers. The former Sheriff could have required the tracking worksheet in excel be retained as documentation of the papers received from the Circuit Clerk's office.

Former Sheriff's Response: Discussed with auditors and this problem was fixed.

